# National Film Board of Canada

## 2013-2014

**Quarterly Financial Report for the quarter ended September 30, 2013**

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## 1. Introduction

The National Film Board of Canada (NFB) was created by an act of Parliament in 1939. A federal cultural agency within the Canadian Heritage portfolio, the NFB exists to produce and distribute original, innovative audiovisual works that add to our understanding of the issues facing Canadians and raise awareness of Canadian values and viewpoints across the country and around the world. The NFB serves Canadians by producing and making accessible, in all regions of the country and on all available platforms, rich and diverse cultural content that reflects Canada's rapidly shifting demographic profile–content that would otherwise not be produced. A brief description of the agency's activities for the current year can be found in *Part II of the Main Estimates*.

This quarterly report has been prepared by management as required by Section 65.1 of the *Financial Administration Act*, and in the form and manner prescribed by Treasury Board. This quarterly report should be read in conjunction with the Main Estimates, as well as with *Canada's Economic Action Plan 2012 (Budget 2012)*.

## 2. Basis of Presentation

This quarterly report has been prepared by management using expenditure accounting. The accompanying Statement of Authorities includes the agency's spending authorities granted by Parliament and those used by the agency consistent with the Main Estimates and Supplementary Estimates for the 2013-2014 fiscal year. This quarterly report has been prepared using a special-purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before monies can be spent by the Government of Canada. Approvals are given in the form of annually approved limits through the Appropriation Act or through legislation in the form of statutory spending authority for specific purposes.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1, preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, 2012 after the tabling of the Main Estimates on February 28, 2012. As a result, the measures announced in Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-13, frozen allotments will be established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In 2013-2014, the changes to departmental authorities were implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the 2013-2014 Main Estimates tabled in Parliament.

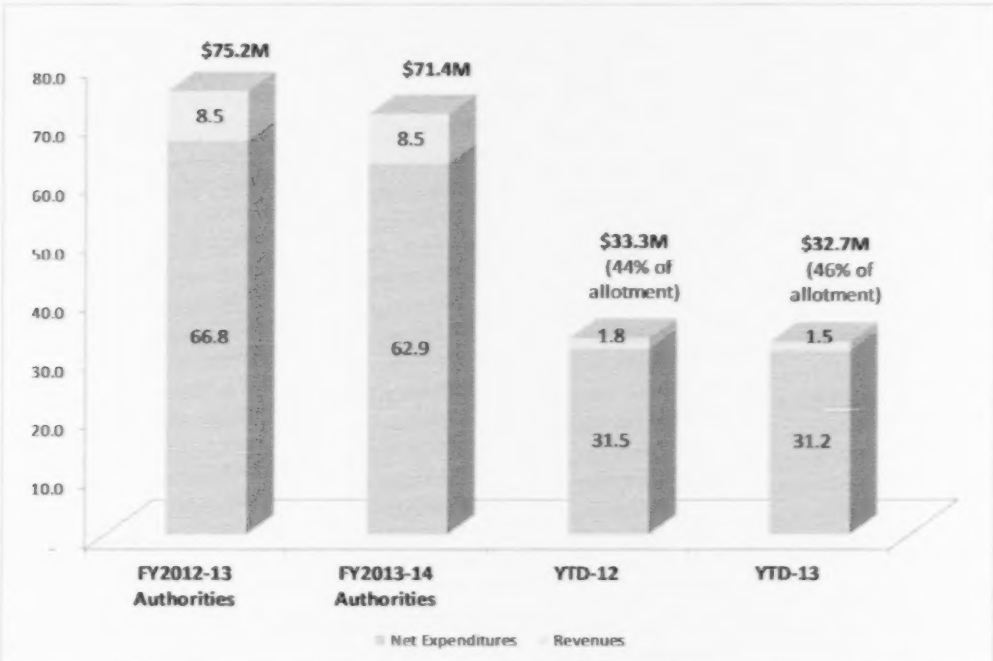
The NFB uses the full accrual method of accounting to prepare its annual financial statements in accordance with Treasury Board accounting principles, which are consistent with generally

accepted Canadian accounting principles for the public sector. However, the spending authorities voted by Parliament remain on an expenditure basis.

This quarterly report has not been subject to an external audit or review.

## 3. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

This section highlights the principal factors that contributed to the variances in projected and real expenses and expected and earned revenues for the period ended September 30, 2013.




The preceding graph shows the total budgetary authorities granted to the NFB for fiscal 2013-2014, with projected gross expenses totalling $71.4 million. This is $3.9 million lower than last year's figure because of the savings measures announced in 2012 Budget (see the Budget 2012 Implementation section).

Net expenses for the second quarter of 2013-2014 declined by $284,000 compared to those for the second quarter of the previous year. The factors below should be noted:

**Variance in Revenues**

As indicated in Table 2, actual revenues for the second quarter dropped by $343,000. Revenues from the educational sector have decreased due to a transformation in this sector. Last year, the figures included a major sale pursuant to an agreement with the Nunavut Department of Education to make the Inuit Audiovisual Legacy box set, and also included revenues associated with the making of *Celebrating the Queen's Diamond Jubilee*. With the shutdown of cinema facilities in Montreal and Toronto, the organization has had to review its model for delivering workshops for the educational sector; this caused a delay in revenue generation.

**Variance in Expenditures**

Total gross expenditures in the second quarter of 2013-2014 amounted to $16.2 million, a decrease of $626,000 compared to the second quarter of the previous fiscal year.

Personnel expenses dropped by 8%, before the temporary increase caused by the payment of severance benefits following the elimination of the program. The reduction can be attributed to the cost savings initiatives implemented as part of the Deficit Reduction Action Plan.

As at September 30, 2012, professional and special services were required for major productions in the shooting phase, such as *Secretariat's Jockey - Ron Turcotte*, *Wall*, *Subconscious Password*, *Ta parole est en jeu*, *Timuti (Baby I Love You)*, *The Loxleys and the War of 1812*, and the film installation at the 2012 Forum de l'Organisation International de la Francophonie.

The decline in rental expenses is due to the closure of the cinema facilities in Montreal. Moreover, in 2012 the organization had been obliged to rent technical equipment for a number of large projects, including *Hi Ho Mistahey*, *Timuti (Baby I Love You)*, *Autoportrait sans moi* and *Absences*.

The other types of expenses by standard object followed historical trends.

## 4. Risks and Uncertainties

Digital technologies continue to revolutionize the audiovisual industry here in Canada and around the world. This revolution naturally provides varied business opportunities of which the NFB has already and intends to take advantage of by developing new digital viewing platforms, by producing interactive works, and by offering products and services for purchase and distribution online. In all markets, converting users to a digital economy will require the use of digital products and services to ensure revenue growth to the NFB. Digital technologies are already a large presence in users' lives, but not yet large enough to ensure the new wave of growth needed to offset the erosion of traditional markets.

The following is an overview of the main risks the NFB faces in 2013-2014.

### External Risks

The transition by consumers to a paying model of physical products to digital products is slower than expected and therefore has an impact on the foreseen revenue growth. The educational market is also being affected by changes related to the use of audiovisual material in the educational sector. To counter the impact of the legislation, the NFB has already adjusted its approach to the CAMPUS educational web site, presenting it as a rich, full-featured, bilingual, value-added education portal, rather than just a collection of films to be used in class. The NFB has worked closely with teachers to identify the tools and functionalities needed to turn CAMPUS into an essential service in the educational sector.

## 5. Significant Changes Related to Operations, Personnel and Programs

Other than the implementation of Budget 2012, no significant changes relating to operations, personnel and programs and having an impact on financial reporting occurred during the quarter ended September 30, 2013.

## 6. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will refocus government and programs, make it easier for Canadians and business to deal with their government, and modernize and reduce the back office.

The NFB is continuing with its original plan to achieve Budget 2012 savings of $6.7 million (10% of its budget) by fiscal year 2014-2015. Through reductions and restraint, it will streamline and focus its operations while ensuring that it continues to deliver quality to Canadians as it fulfils its important mandate.

The principal savings measures are as follows.

- On September 1, 2012, closure of individual screening booths and screening rooms at the Toronto Mediatheque and Montreal CineRobotheque. Educational workshops will continue to be offered at headquarters in Montreal and in Toronto on the usual premises, where a public exhibition space will also be available.
- On April 1, 2012, elimination of the "Festivals and Events" component of the Grants and Contributions Program.
- A slight reduction of the NFB's total budget–in the amounts allocated for the production of audiovisual works.
- Consolidation of administrative services in regional offices.

- Implementation of new work processes in all NFB divisions, particularly in linguistic services management, rights management, and general administration. The NFB will continue to rationalize its space utilization and expects to save additional amounts.

The NFB has received no additional funding to implement the above measures.

The $110,000 savings projected for 2012-2013 from reducing office space at headquarters have been realized in full as at September 30, 2012, and the measure will continue as planned in the coming years.

In 2013-2014, the NFB forecasts cumulative savings of $3.3 million, and has already implemented all the measures needed to achieve that target in accordance with the timetable established, with the exception of IT support through shared government services, and the savings anticipated by making the switch from selling physical products to selling virtual products. The NFB is awaiting a decision regarding the takeover of its corporate IT services by Shared Services Canada (SSC), slated for January 2014. As yet, the organization has been given no confirmation, and any delay in integration will cause a delay in savings as projected. The transition to digital products in the educational sector is also slightly behind schedule, because a number of institutions do not yet have the technological infrastructure for digital delivery that makes online viewing possible. There could thus be some delay in generating the related savings.

Approved by:

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Government Film Commissioner

Montreal, Canada

November 30, 2013

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November 30, 2013

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**Table 1 : Statement of Authorities** ***(unaudited)***

| | Fiscal Year 2013-2014 | | | Fiscal Year 2012-2013 | | |
|---|---|---|---|---|---|---|
| | Total available for use for the year ending March 31, 2014* | Used during the quarter ended September 30, 2013 | Year to date used at the quarter-end | Total available for use for the year ending March 31, 2013 | Used during the quarter ended September 30, 2012 | Year to date used at the quarter-end |
| Vote 70 - Operating expenditures | 62,890,037 | 15,437,931 | 31,189,204 | 66,782,204 | 15,721,648 | 31,481,678 |
| **Total Budgetary authorities** | 62,890,037 | 15,437,931 | 31,189,204 | 66,782,204 | 15,721,648 | 31,481,678 |
| **Total authorities** | **62,890,037** | **15,437,931** | **31,189,204** | **66,782,204** | **15,721,648** | **31,481,678** |

**Includes only Authorities available for use and granted by Parliament at quarter-end)*

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**Table 2 : Departmental budgetary expenditures by Standard Object *(unaudited)***

| | Fiscal Year 2013-2014 | | | Fiscal Year 2012-2013 | | |
|---|---|---|---|---|---|---|
| | Planned expenditures for the year ending March 31, 2014 | Expended during the quarter ended September 30, 2013 | Year to date used at quarter-end | Planned expenditures for the year ending March 31, 2013 | Expended during the quarter ended September 30, 2012 | Year to date used at quarter-end |
| Expenditures: | | | | | | |
| Personnel | 38,432,138 | 11,040,929 | 21,335,370 | 40,346,526 | 10,205,242 | 20,412,196 |
| Transportation and communications | 3,267,813 | 629,617 | 1,207,705 | 3,447,753 | 705,935 | 1,343,640 |
| Information | 557,323 | 56,498 | 147,580 | 588,012 | 60,356 | 180,461 |
| Professional and special services | 13,900,747 | 1,944,176 | 3,523,514 | 14,666,182 | 2,830,037 | 4,635,037 |
| Rentals | 8,257,906 | 1,722,866 | 4,471,264 | 8,712,622 | 2,118,631 | 4,285,222 |
| Repair and maintenance | 1,374,908 | 202,613 | 884,203 | 1,450,616 | 127,718 | 805,946 |
| Utilities, materials and supplies | 1,149,402 | 152,865 | 349,581 | 1,212,693 | 183,577 | 399,992 |
| Acquisition of machinery and equipment | 3,472,141 | 205,954 | 376,855 | 3,663,332 | 285,042 | 842,168 |
| Transfer payments | 80,000 | 76,500 | 76,500 | 250,000 | 99,440 | 131,940 |
| Other subsidies and payments | 850,105 | 143,021 | 343,337 | 896,914 | 185,519 | 265,216 |
| **Total gross budgetary expenditures** | **71,342,483** | **16,175,039** | **32,715,909** | **75,234,650** | **16,801,497** | **33,301,818** |
| **Less Revenues netted against expenditures:** | | | - | | | - |
| Revenues credited to the vote | 8,452,446 | 737,108 | 1,526,705 | 8,452,446 | 1,079,849 | 1,820,140 |
| **Total Revenues netted against expenditures** | **8,452,446** | **737,108** | **1,526,705** | **8,452,446** | **1,079,849** | **1,820,140** |
| **Total net budgetary expenditures** | **62,890,037** | **15,437,931** | **31,189,204** | **66,782,204** | **15,721,648** | **31,481,678** |